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NATIONAL INTELLIGENCE DAILY CABLE

Friday November 5, 1976 CI NIDC 76-259C

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State Dept. review
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[REDACTED]

National Intelligence Daily Cable for Friday, November 5, 1976.

[REDACTED] The NID Cable is for the purpose of informing
senior US officials.

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USSR-EGYPT: Foreign Ministers Meeting

[] The terse statement issued following the talks between Soviet Foreign Minister Gromyko and Egyptian Foreign Minister Fahmi in Sofia, Bulgaria, on November 3 and 4 suggests that both sides remain wary of each other.

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[] The statement notes that:

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--The situation in the Middle East received "primary attention."

--The two sides agreed to "quick resumption" of the Geneva Middle East peace conference.

--They exchanged views on the present state of relations and the "dimensions for their development."

There was no sign of progress on such problems as rescheduling the Egyptian debt to the USSR or supplying Egypt with Soviet military equipment.

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[] In the short term, Moscow is trying to impress the US that the USSR has a role to play in the Middle East negotiations and is a potential guarantor of any eventual agreement. The Soviets are also seeking in the long term to regain their position in Egypt, the linchpin of their policy in the Middle East.

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JAPAN: Deputy Prime Minister Resigns

[] Japanese Deputy Prime Minister Fukuda's resignation today--reflecting his decision to move into open opposition to Prime Minister Miki--virtually ensures that the anti-Miki camp will make a serious effort to oust the Prime Minister following the lower house election next month.

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[] Fukuda had been under considerable pressure to resign since last week. Then nearly two-thirds of the ruling Liberal Democratic Party's Diet members publicly endorsed Miki's removal--and Fukuda's installation as party president and prime minister. Anti-Miki leaders agreed to postpone such a direct challenge for the time being, however, because of sentiment in the party that the leadership issue should be resolved after the election, which is about a month away.

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[] Fukuda has preferred all along that Miki be removed by negotiation rather than an open battle, and his refusal to confront the Prime Minister has caused problems in the anti-Miki ranks. At this point, however, Fukuda has little to lose by resigning.

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[] The Diet has passed the required economic legislation this session--in part Fukuda's responsibility as director of the economic planning agency, from which he has also resigned--and in any case the entire cabinet must resign by law following the general election. []

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UK: The Pound Rises

[] //The British pound traded as high as \$1.64 yesterday before closing at \$1.6255, still 1.15 percent higher than Wednesday.//

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[] //Demand for sterling was spurred by currency market expectations that the government would soon announce the new austerity measures that they are planning in anticipation of conditions likely to be attached by the International Monetary Fund to the \$3.9-billion standby credit now under negotiation. The pound was also buoyed by continued rumors of possible international assistance beyond the proposed IMF credit, despite official denials.//

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[] //The new austerity measures are expected to include both tax increases and spending cuts; they probably will not take effect until next April, the beginning of the fiscal year. By reducing the size of the public sector deficit, the measures will aid government efforts to control the money supply and inflation.//

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[] //The pound has strengthened nearly four cents this week despite the announcement on Tuesday that Britain's official reserves, excluding gold, had fallen in October to a five-year low of \$3.86 billion.//

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[] //Although \$1.5 billion in drawings against last June's \$5.3-billion international standby credit become due on December 9, foreign currency receipts will substantially reduce the diversion of reserves to cover this payment. The \$500 million raised in the Eurocurrency market by the British Electricity Council should come in this month, and Italian repayment of \$486 million--Britain's share of a 1974 EC credit--will be made before December 9.//

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[redacted] //Without further foreign borrowings, however, usable currency reserves will fall to less than \$3.4 billion between December 9 and the time the initial payment of any new IMF loan is received.//

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[redacted] //Whatever comfort Prime Minister Callaghan may derive from sterling's performance will have to be balanced against bad political news. The Labor Party lost two of three parliamentary by-elections yesterday in normally "safe" working class districts.//

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[redacted] //Labor had already lost its absolute majority in the House of Commons, and yesterday's results will make the government more dependent than ever on the good will of the minor opposition parties. Fortunately, from Callaghan's viewpoint, the small Liberal Party is not showing any sign of wanting an early election.//

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[redacted] //The election losses do not signal an end to the Labor Party - trade union alliance, but they do underline strains that are likely to grow if the country's economic problems persist well into next year. [redacted]

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CYPRUS: Change Unlikely

[redacted] On Monday, the UN General Assembly will again consider the Cyprus problem. The recurrence of the issue for the third year in a row highlights the continued lack of progress toward a solution.

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[redacted] Representatives of the Greek Cypriot and Turkish Cypriot communities have not met in formal intercommunal talks since February. Resumption of the talks is unlikely in the absence of a major change in tactics by either side or a new initiative by interested parties. Leaders of both sides believe they have nothing to gain from negotiations now, and a wide gap remains between their positions.

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[redacted] Cypriot President Makarios wants significant concessions from the Turkish side before he agrees to a settlement, and he sees little chance that the Turks are prepared to accommodate him. Makarios believes that it is not now possible to

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[]

reverse the Cyprus situation and that he can either agree to legalize the present status of the island in return for minor Turkish territorial concessions or refuse a settlement and keep the Cyprus question alive.

[] Makarios has adopted a "long struggle" policy, aimed at keeping the Cyprus problem in the international arena and increasing political and economic pressures on Turkey, despite his realization that he can expect very little from his appeals to the UN and international public opinion. Bolstered by the resounding victory his supporters won in the Greek Cypriot elections on September 5, he is likely to continue his "long struggle" in the hope of an eventual change in Turkish policy or new international conditions that may help Greek Cypriots recoup some of their losses.

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[] Turkish Cypriot leader Rauf Denktash is also opposed to concessions that might jeopardize some of the gains arising from the Turkish intervention in 1974.

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[] Policy differences within the Turkish government limit Prime Minister Demirel's ability to press the Turkish Cypriots to undertake meaningful initiatives for a compromise. Significant territorial and constitutional concessions are opposed by nationalist members of the government coalition. This situation is unlikely to change before the Turkish parliamentary election next year and even then the same situation may continue.

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[] Greek Prime Minister Caramanlis is not interested in pressing the Greek Cypriots to adopt a more realistic posture in the face of the immobilism in Ankara. He is reluctant to become known as the man responsible for yielding to the Turks over Cyprus and he is also preoccupied with the Aegean problem.

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[] UN Secretary General Waldheim has been unable to find a basis for resuming negotiations in light of the reluctance of any of the parties to negotiate seriously at this time. Attempts by the US, the UK, and the EC to generate movement through the intercommunal forum also have been unsuccessful to date.

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[] The military situation on Cyprus has been relatively stable despite incidents along the Demilitarized Zone separating the two communities. This stability stems in part from the overwhelming Turkish military presence and the Greeks' and Greek Cypriots' inability to challenge it.

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[redacted] Even if intercommunal negotiations can be arranged in the near future, substantive progress toward a settlement is unlikely. The stalemate will serve to solidify both sides as separate communities. The military situation will probably remain relatively stable, except in the event of an outbreak of hostilities in the Aegean that could spill over into Cyprus. [redacted]

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CANADA: Cabinet Shuffle

[redacted] //The minor cabinet shuffle announced by Canadian Prime Minister Trudeau on Wednesday will not help the sagging fortunes of the Liberal Party.//

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[redacted] //One of the changes announced by Trudeau is the confirmation of acting Defense Minister Barnett Danson as the successor to James Richardson, who resigned his post as minister of defense in mid-October because of political differences with Trudeau. Danson is well-disposed toward the US and is expected to be more active and energetic than his predecessor.//

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[redacted] //Danson's previous job as minister of urban affairs will be filled by Andre Ouellet, who resigned as minister of consumer and corporate affairs last March after being held in contempt of court in a price-fixing case.//

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[redacted] //Trudeau also named a Liberal Member of Parliament from Manitoba, Joseph Guay, as minister without portfolio. Guay's appointment maintains a regional balance in the cabinet by filling the gap left by Richardson, who is also from Manitoba. According to the US embassy, Trudeau chose Guay over the objections of Liberal Party leaders in Manitoba, [redacted]

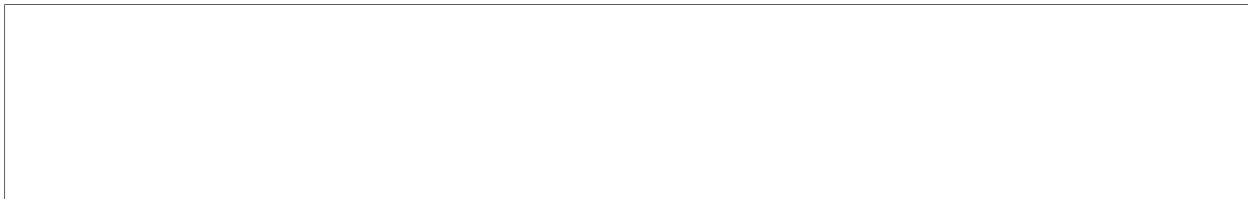
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PHILIPPINES: Base Negotiations

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 //Renegotiation of the US military bases agreement began last April at the Philippines' request. Agreement was reached on a number of points, but the talks were informally recessed in mid-August, leaving unresolved the major issues that are politically sensitive.//

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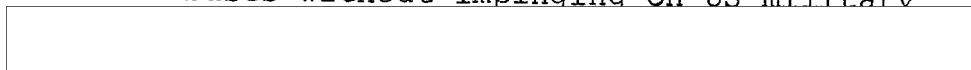
 //A basic problem is the amount of military aid the Philippines wants in return for continued US use of the bases. The initial aid package outlined by the Filipinos called for an unprecedented cash payment, plus assistance for developing a Philippine defense industry that would give the Philippines greater military independence. A principal decision facing Marcos is the extent to which he will reduce these requests in order to open the way for an early agreement.//

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 //Manila has also requested increased controls over US bases. Marcos has publicly admitted that the Philippines has not devised a formula for effectively demonstrating Philippine sovereignty over the bases without impinging on US military operations.

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